

TO: Sandia Corporation Retirement Income Plan (“RIP”) Participants

FROM: Pension Fund & Savings Plan Management Department 10520

RE: Important Plan Changes

DATE: November 10, 2008

This Notice summarizes recent changes to the Sandia Corporation Retirement Income Plan (“RIP”) and the Sandia Corporation Savings and Income Plan (“SIP”). These changes are effective January 1, 2009, unless otherwise noted below.

1. **New Hire.** An employee who first becomes a common-law employee of Sandia on or after January 1, 2009, is not eligible to participate in RIP. RIP does, however, provide that certain transferred employees can participate.
2. **Rehire.** An individual who, on or after January 1, 2009, again becomes a common law employee of Sandia is not eligible to earn additional Credited Service under RIP. RIP does, however, provide that eligible employees who timely return from certain leaves of absence (for example, qualified military service) and certain transferred employees can earn additional Credited Service.
3. **Service-Based Contribution.** SIP has been amended to provide that Sandia employees newly hired or rehired as outlined in item 1 or item 2 above may receive (subject to a 3-year vesting schedule) a service-based, company contribution in accordance with the following table:

Employee’s completed years of Plan Service as of the last day of the applicable payroll period	Contribution as a percentage of compensation (as defined in SIP) earned by the employee during the applicable payroll period, and while eligible for a service-based contribution
Less than 15	6%
15 or more	7%

In addition, employees eligible for a service-based contribution will be eligible for matching contributions upon enrollment in SIP, because SIP will no longer require Participants hired on or after January 1, 2009 to complete a year of service before becoming eligible for matching contributions.

4. **Credited Service.** Effective for service earned on and after January 1, 2009, a Participant's service *only* while working for Sandia as an Eligible Employee will be counted as Credited Service.
5. **Option to Delay Pension.** Effective January 1, 2008, a Participant generally may delay receipt of his or her RIP pension to a date as late as April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2. However, if a Participant retires with a Service Pension and is otherwise eligible for continued medical and/or life insurance coverage, that coverage will *not* be in effect during the period of time between the Participant's termination of employment and the start of the Participant's pension.
6. **No Disability Benefits.** A Participant who has a termination of employment on or after January 1, 2009, will not be eligible to receive a Disability Pension, or any other special treatment under RIP due to his or her Disability.
7. **Grandfathered Disability Benefits.**

2008 Grandfather. If a RIP Participant was approved for benefits under the Sandia Corporation Sickness Absence Plan during 2008 due to an illness or injury that results in a determination of Disability pursuant to RIP, that Participant will be treated as though item 6 above had not been added to the Plan; provided that (i) the Participant properly applies for a determination of Disability under RIP before July 1, 2009 and (ii) that pre-July 1, 2009 application for Disability actually results in a determination of Disability.

Current Disability Benefits. A Participant who receives a determination of Disability pursuant to the "2008 Grandfather" paragraph immediately above, and a Participant who, on December 31, 2008, is receiving a Disability Pension or other special treatment under RIP due to a Disability, will not be impacted by the change described in item 6, above, unless the Participant's Disability Pension or other special treatment under RIP due to a Disability is terminated, for example, because the Participant no longer has a Disability or the Participant refuses to submit to a medical examination.

EXAMPLES

The examples below illustrate the changes described above. When you review these examples, please keep in mind the following:

- **Plan Service/Credited Service.** The changes described in items 2 and 4 above impact Credited Service, not Plan Service. Credited Service is used to determine the amount of a Participant's benefit. Plan Service is used to determine whether a Participant is eligible for certain RIP benefits. For example, in order to receive a Service Pension, a Participant must attain, while still an Employee (as defined in RIP), age 50 with at least 25 years of service, age 55 with at least 20 years of Plan Service, age 60 with at least 15 years of Plan Service, age 65 with at least 10 years of Plan Service, or any age with at least 30 years of Plan Service. Plan Service also is used to calculate the service-based SIP benefit described in item 3, above.
- **Deferred Vested Pension/Service Pension.** The examples below are based on benefit calculations for an hypothetical RIP Participant who becomes eligible for a Service Pension. Concepts illustrated by these examples apply also to a Participant who receives a Deferred Vested Pension. The examples illustrate pension benefits payable as a single life annuity, and do not reflect reductions for post-retirement survivor benefits.
- **Description of the Hypothetical RIP Participant used in the Examples Below**
 - On January 1, 2010, this Participant terminates employment with Sandia, goes to work for another company, and therefore ceases to be an Eligible Employee within the meaning of RIP.
 - On January 1, 2010, when he terminates employment with Sandia, this Participant is exactly age 50, is credited with exactly 18 years of Plan Service and Credited Service, and has Average Earnings of \$100,000 for purposes of calculating his RIP pension.
 - After working elsewhere for 2 years (2010 and 2011), this Participant is rehired by Sandia on January 1, 2012. He continues to work for Sandia as a rehire until the end of 2014, and has average earnings of \$120,000 per year for those 3 years. As a Sandia rehire, during 2012, 2013 and 2014, this Participant:
 - receives service-based contributions under SIP of approximately \$25,200 (\$120,000 (x) 7% (x) 3)
 - continues to earn Plan Service under RIP and SIP
 - does not earn additional Credited Service under RIP
 - This Participant terminates employment with Sandia at age 55, and immediately starts his RIP pension. His termination of employment is not due to Disability.

Example 1 (Immediate Service Pension at Age 55): As indicated above, this Participant was credited with 3 years of Plan Service due to his work for Sandia in 2012, 2013, and 2014. Consequently, upon termination of employment, this Participant qualifies for a Service Pension based on his age (55) and his total years of Plan Service (21). As indicated in the attached Table at the end of this Notice, this Participant's immediate, annual Service Pension would be calculated based on the 1.44% retirement age factor for a Participant who has attained age 55.¹ The Credited Service used to calculate this Participant's pension would be "frozen" at 18 years (the Credited Service he had earned as of January 1, 2010, when he first terminated employment with Sandia). Consequently, our hypothetical Participant would receive an annual Service Pension calculated as follows:

- $\$100,000 \times 1.44\% \times 18 \text{ years of Credited Service} = \$25,920$

Comparison. (Example 1 Pre-Amendment Calculation) Before the RIP amendments described in this Notice, this Participant would have received Credited Service for the years 2012, 2013, and 2014, during which he worked for Sandia as a rehire, and his annual Service Pension at age 55 would have been calculated as follows:

- $\$120,000 \times 1.44\% \times 21 \text{ years of Credited Service} = \$36,288$

Comparison. (Example 1 Pre-Amendment Disability Pension Calculation): Before the RIP amendments described in this Notice, a Participant with 15 years of Plan Service who terminated employment due to Disability was eligible for a Disability Pension. For example, if our hypothetical Participant had terminated employment with Sandia due to a Disability and prior to the effective date of the amendments described in this Notice, his annual Disability Pension would have been calculated using the 2% factor in the attached Table and Credited Service attributable to his work for Sandia as a rehire in 2012, 2013, and 2014. That Disability Pension calculation would have looked like this:

- $\$120,000 \times 2.0\% \times 21 \text{ years of Credited Service} = \$50,400$

¹ A different factor would apply if this were a Deferred Vested Pension

² See footnote 1, above.

Example 2 (Service Pension Delayed Until Age 62). Assume that, instead of starting his Service Pension at age 55, our hypothetical Participant started his Service Pension at age 62. As indicated on the attached Table, the retirement age factor used for Participants age “62 & up” is 2%.³ Consequently, the annual Service Pension for this hypothetical Participant would be calculated as follows:

- \$100,000 (x) 2.0% (x) 18 years of Credited Service = \$36,000
- **Reduced Pension for Married Participants:** If the Participant is married, unless the Participant and his spouse properly elect to the contrary, this \$36,000 annual Service Pension automatically would be reduced to pay for the availability of a survivor benefit for the Participant’s spouse during the period of time between the Participant’s termination of employment (at age 55) and the start of the Participant’s Service Pension (at age 62).⁴
- **Impact of Delay on Retiree Medical/Life Insurance.** If a Participant retires with a Service Pension⁵ and is otherwise eligible for continued medical and/or life insurance coverage, that coverage will not be in effect during the period of time between the Participant’s termination of employment and the start of the Participant’s pension. Summary Plan Descriptions for Sandia’s medical and life insurance benefits contain additional information, including important warnings about how your surviving spouse and dependents permanently could lose continued coverage.

³ See footnote 1, above.

⁴ Deferred Vested Pensions payable to married Participants also are subject to automatic reductions to pay for surviving spouse benefit protection.

⁵ To the extent Disability Pensions are discontinued (as described in this Notice), receipt of a Disability Pension no longer can be used to qualify a Participant for continued medical and/or life insurance coverage.

Example 3 (Pension Delayed Until Age 67). RIP provides an actuarially increased pension for a Participant whose pension begins after the Participant has attained age 65 (Normal Retirement Age). For example, our hypothetical Participant's annual Service Pension at age 67 would be calculated as follows:

- \$100,000 (x) 2.0% (x) 18 years of Credited Service = \$36,000, actuarially adjusted to \$43,495.
- **Reduced Pension for Married Participants:** If the Participant is married, unless the Participant and his spouse properly elect to the contrary, this \$43,495 annual Service Pension automatically would be reduced to pay for the availability of a "death benefit" for the Participant's spouse during the period of time between the Participant's termination of employment (at age 55) and the start of the Participant's RIP pension (at age 67).⁶
- **Impact of Delay on Retiree Medical/Life Insurance.** If a Participant retires with a Service Pension⁷ and is otherwise eligible for continued medical and /or life insurance coverage, that coverage will not be in effect during the period of time between the Participant's termination of employment and the start of the Participant's pension. Summary Plan Descriptions for Sandia's medical and life insurance benefits contain additional information, including important warnings about how your surviving spouse and dependents permanently could lose continued coverage.

We remain committed to providing our employees with competitive benefits. If you have any questions about these changes, please contact Nancy Muller at (505) 845-6380 or Mark Biggs at (505) 844-1511.

⁶ See footnote 4, above.

⁷ See footnote 5, above.

ATTACHMENT: Excerpt from Section 8 of Sandia Corporation Retirement Income Plan

Participant's current monthly benefit is $1/12^{\text{th}}$ of the product of the following:

- (i) The Participant's Average Earnings
- (ii) The Participant's Credited Service
- (iii) The factor in the chart below for the Participant's attained age on the Participant's Annuity Starting Date.

Retirement Age Factors												
Complete months since last birthday												
Age in Years	0	1	2	3	4	5	6	7	8	9	10	11
up to 50	1.04%											
50	1.04%	1.05%	1.05%	1.06%	1.07%	1.07%	1.08%	1.09%	1.09%	1.10%	1.11%	1.11%
51	1.12%	1.13%	1.13%	1.14%	1.15%	1.15%	1.16%	1.17%	1.17%	1.18%	1.19%	1.19%
52	1.20%	1.21%	1.21%	1.22%	1.23%	1.23%	1.24%	1.25%	1.25%	1.26%	1.27%	1.27%
53	1.28%	1.29%	1.29%	1.30%	1.31%	1.31%	1.32%	1.33%	1.33%	1.34%	1.35%	1.35%
54	1.36%	1.37%	1.37%	1.38%	1.39%	1.39%	1.40%	1.41%	1.41%	1.42%	1.43%	1.43%
55	1.44%	1.45%	1.45%	1.46%	1.47%	1.47%	1.48%	1.49%	1.49%	1.50%	1.51%	1.51%
56	1.52%	1.53%	1.53%	1.54%	1.55%	1.55%	1.56%	1.57%	1.57%	1.58%	1.59%	1.59%
57	1.60%	1.61%	1.61%	1.62%	1.63%	1.63%	1.64%	1.65%	1.65%	1.66%	1.67%	1.67%
58	1.68%	1.69%	1.69%	1.70%	1.71%	1.71%	1.72%	1.73%	1.73%	1.74%	1.75%	1.75%
59	1.76%	1.77%	1.77%	1.78%	1.79%	1.79%	1.80%	1.81%	1.81%	1.82%	1.83%	1.83%
60	1.84%	1.85%	1.85%	1.86%	1.87%	1.87%	1.88%	1.89%	1.89%	1.90%	1.91%	1.91%
61	1.92%	1.93%	1.93%	1.94%	1.95%	1.95%	1.96%	1.97%	1.97%	1.98%	1.99%	1.99%
62 & up	2.00%											

The retirement age factor used for Participants who do not meet the age and service requirements for an immediate Service Pension will be 2.0%, which is the factor that applies at age 65.